

# ***U.S. Embassy - Skopje***

## **ECON NEWSLETTER 01/2005**

### **GOVERNMENT DETERMINED TO INTENSIFY STRUCTURAL REFORMS**

Macedonian Prime Minister Vlado Buckovski held a meeting with Deputy PM for Economic System Minco Jordanov, Minister of Finance Nikola Popovski, Minister of Economy Fatmir Besimi, Minister of Transport and Communications Xhemail Mehazi and Minister of Agriculture, Forestry and Water Supply Sadula Duraku. They agreed on establishing a Coordinative Body for negotiations with World Bank and IMF, which will include the Deputy PM for Economic System, Ministers of Finance, Economy, Labor and Social Welfare, Transport and Communications. Minister of Health and Governor of the National Bank of the Republic of Macedonia will also be included later on.

PM Buckovski and the ministers once again reiterated readiness for continuation of intensified structural reforms through eight projects: reforms in judiciary, public administration and health, restructuring of the Macedonian Railways, transformation of the Macedonia Radio Television, restructuring of the Electric Power Company, labor market and improvement of the business climate.

### **DECENTRALIZATION PROCESS TO COST MACEDONIA DENAR 13 BILLION**

The pending decentralization process in Macedonia will cost the state Denar 13 billion, with the transfer of 26,000 employees, 343 elementary, 94 secondary schools, and a total of 3,754 objects under the municipalities' competence. "A total of 10 laws should be changed in the first six months, and adopted in the Parliament", Minister of Local Self Government Rizvan Sulejmani stated at a press conference.

He said that decentralization was a complex process, with the participation of 12 ministries, 8 of which with direct transfer of authorities, people, property and capital. According to Sulejmani, the process would also include 11 vital spheres, such as urbanism, environment protection, communal services, culture etc.

## **AMBO PIPELINE MOVES FORWARD**

The public withdrawal of support for the Bourgas-Alexandroupolis pipeline project by both Russian President Putin and Lukoil President Vagit Alekperov, is a "breakthrough" point for moving forward the construction of Burgas-Valona oil pipeline, which should be realized by AMBO company, with the support of Macedonia, Bulgaria and Albania. This statement was given by Gligor Tashkovich, the Executive Vice President for Government & Media Relations for the AMBO pipeline project in the exclusive interview with the Internet site Balkan Analysis.

He said that Putin and Alekperov withdrew the support for the Burgas-Alexandroupolis pipeline project in the September-December 2004 timeframe. "The Greeks keep acting like nothing is happening - but all of their lobbying efforts are falling on deaf ears. The Greek media continue to illustrate one side of the story, and the Greek Government Ministers keep putting up a brave face," Tashkovich said.

According to him, the Memorandum of Understanding signed in Sofia by Macedonia, Bulgaria and Albania, means that the AMBO project enters its final phase, and the chances for its realization are 95 percent. Tashkovich said that USD 900 million are already provided for the construction of the oil pipeline, which total value is estimated at USD 1.2 billion.

Greek Foreign Minister Petros Molyviatis said that Greece would not revoke its plans for the building of the Burgas-Alexandroupolis pipeline, regardless the signing the trilateral AMBO Memorandum. The value of Burgas-Alexandroupolis project is estimated at USD 800 million.

## **MINISTER OF ECONOMY MEETS WORLD BANK MISSION**

On January 12, 2005, Minister of Economy Fatmir Besimi met with the World Bank Mission and discussed the preparations for the new three-year project for reform of the business environment and institutional strengthening. The project's aim is to support the GOM in the increase of competitiveness of domestic economy, expansion of domestic and foreign investments, as well as enhancement of the GOM's capability for development and implementation of reforms that will improve the business climate.

The crucial short-term and mid-term challenges are the necessity for promotion of the economic growth and creation of jobs, as well as preparation for future integration in the European Union. Minister Besimi said that the Ministry of Economy, in coordination with other competent ministries, would actively continue to provide proposals for the Project's realization, adding that the Ministry would urge the introduction of efficient mechanisms for mutual exchange of information between the private sector and the government.

#### **MACEDONIA RECEIVES ADDITIONAL EURO 8 MILLION FROM CARDS PROGRAM**

Macedonia received additional Euro 8 million from the CARDS Program with the Amendment to the Financing Agreement for the CARDS Annual Action Program 2004 for Macedonia. With this funds Macedonia will receive a total of Euro 55.5 million from the European Commission (EC).

The EC approved this amount for further support of the political, economic and social reforms. The additional amount will be used for financing the projects "Technical assistance to the creation of the Directorate for Personal Data Protection" (Euro 1 million), "Technical assistance, equipment supply and infrastructure support to the Border Police Service (Euro 3 million), "Support to the development of police evidence management and forensic analysis capacity" (Euro 4 million). Implementation of the projects will start in the course of 2005.

#### **GOVERNMENT ADOPTS 2005 MACROECONOMIC POLICY**

At government session held on January 17, the GOM reviewed and adopted the 2005 macroeconomic policy. The GOM's press release reads that the current economic situation prevents achievement of a higher and sustainable growth rate, which results in a necessity for huge, comprehensive and immediate reform efforts for the purpose of economic restructuring. Therefore, structural reforms will be the most significant pillar of the macroeconomic policy in 2005.

The GOM will work on the increase of the mid-term economic growth rate, through intensifying structural reforms, decreasing unemployment rate, reducing poverty and improving the business climate, thus creating conditions for the country's faster EU integration.

## **WORLD BANK ARRANGEMENT TO BE CONCLUDED IN JUNE, FINANCE MINISTER SAYS**

The first installment of the new World Bank arrangement should be acquired after October, following its adoption by the Bank's Board of Directors, while the agreement should be concluded in June, Minister of Finance Nikola Popovski stated on January 24, 2005. He expects an arrangement amounting to US\$ 25 million each year, and should be the first development arrangement of such type for Macedonia. The arrangement is a balance of payments' support, including several structural arrangements that refer to the business climate, cadastre, reform of the labor market, judiciary reforms, transport sector etc.

## **TWO ASSOCIATIONS FOR PENSION FUND MANAGEMENT SELECTED**

The Greek National Bank together with Stopanska Banka from Macedonia, and Nova Ljubljanska Banka from Slovenia together with Tutunska Banka from Macedonia are the two associations that will manage the two private pension funds in the upcoming ten years. The two associations, which will function in the second pension fund pillar, have been selected at an international tender.

The pension insurance in the private funds will be compulsory for all employed after January 1, 2003. All employees will have the opportunity to direct 7 percent of the pension insurance contributions to one of the private pension funds or to the State Pension Fund. Projections showed that the pension insurance in the private funds is most favorable for individuals up to 40 years of age. A public informative campaign would be organized in the upcoming period, in order to help the employees decide where to direct part of their pension contributions.

## **GERMAN EXPERT WEIGEL ACCEPTS ROLE IN BUCKOVSKI'S TEAM**

German expert on financial-economic issues Theo Weigel confirmed that he accepted the offer from Macedonian Prime Minister Vlado Buckovski to be an advisor on financial-economic issues in his Cabinet. The letter, addressed to the PM, reads that he would provide his contribution in the promotion of the economic and political process in Macedonia, especially in regard to the country's EU accession.

"The GOM's work and my engagement in the following five years will technically prepare Macedonia for accession in the European Union", the letter reads. PM Buckovski and

Weigel signed a protocol that confirmed the cooperation, stating that Weigel's team would be comprised of former officials in Germany and EU. According to the protocol, Weigel will represent Macedonia before the EU, European Bank for Reconstruction and Development (EBRD), European Investment Bank, IMF, World Bank, the German Government, as well as numerous German and European foundations. The German Government and the European Union have provided strong support for his engagement in Macedonia.

#### **GOVERNMENT ADOPTS AND CONFIRMS ANSWERS TO EC QUESTIONNAIRE**

The GOM confirmed all 1,922 answers to the European Commission Questionnaire, Vice-Prime Minister for Euro-Integration Radmila Sekerinska said at a press conference on January 24, 2005. "After 116 days of hard work, more than 40 formal and 100 informal meetings, review of hundreds of thousands pages of laws, provisions, rulebooks, European guidelines, a total of 14,000 pages of written text were presented today before the Government", Sekerinska explained. She informed that the GOM would acquire all questions in English by January 31, adding that the entire process included over 1,000 civil servants, 100 domestic experts and 40 translators.

"Macedonia has doubled its chances for EU accession with the Questionnaire answers, accelerating the process", Sekerinska assessed. According to her, the latest statement of Euro-Commissioner Olli Rehn, who put Macedonia on the express lane towards EU, as well as the general relation of the EU and its member-countries regarding the country's application, has proved skeptics wrong.

"The process does not end here, we are closing one page, but opening the more difficult ones. PM Vlado Buckovski will hand over the Questionnaire answers to European Commission President Jose Manuel Durao Barroso on February 14, 2005. From that moment on, the Macedonian public will have a permanent insight in the answers to all questions", Sekerinska informed.

According to her, additional questions were to arrive by March, followed by political consultations on a number of topics, such as the decentralization process, Framework Agreement, judicial reforms and other ongoing packages. As she stated, if everything went according to plans, and if Macedonia fulfilled its political commitments, the European Commission avis regarding the country's application should be completed by October 2005, with the

final word given by the EU Council of Ministers by the end of 2005.

#### **PROJECT "SUPPORT TO TRAINING SYSTEM FOR LOCAL GOVERNMENT ADMINISTRATION" PROMOTED**

The main objective of the project "Support to Training System for Local Government Administration", which was promoted by the United Nations Development Program (UNDP) in Skopje on January 26, is to support the decentralization process through strengthening the human resource capacities in local self-government. Through continuous training of local state administration, mayors and council members, the Project should contribute to the development of a highly professional, accountable and efficient local administration, capable of implementing newly introduced competencies.

The two-year project, worth more than US\$ 800,000, is realized in cooperation with the Ministry of Local Self-Government, Civil Servants Agency, and the Association of Units of Local Self-Government (ZELS), with the financial support of UNDP and the Norwegian Government.

"Decentralization of local self-government is the road sign towards Europe, and is not owned by any community, political party, or government, but is a process of balancing the central and local authorities. Decentralization is division of competencies between the central and local power, thus creating possibilities for citizens to directly decide on their rights and needs in the field of local self-government", Minister of Local Self-Government Rizvan Sulejmani stated at the project's promotion.

Director of the Civil Servants Agency Aleksandar Gestakovski emphasized that this was the right moment to implement the project, because local elections are pending. According to him, the training of civil servants would develop in continuity, the novelty being training of elected officials, i.e. mayors and council members.

According to ZELS chairman Goran Angelov, the trilateral agreement among the Ministry, Civil Servants Agency and ZELS for establishment of a Trilateral Committee comprised of the three entities was in the function of training organization in local administration.

"Decentralization will not be successful without a trained administration, since the municipality should satisfy 90 percent of the citizens' needs", Angelov pointed out.